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## THE ECONOMIC PHILOSOPHY OF CO-OPERATION

### I

Taken by and large coöperators are long on practice and short on theory. The contrast is marked as against such inveterate theorists as the socialist and the single taxer. These latter are well drilled in the reasons for the faith that is in them, albeit they have been able to produce but scanty actual achievements against the organized opposition of constituted government. On the other hand, any small group of persons may enter on business ventures after the coöperative pattern long before they are in a position to answer the higher catechism of coöperative doctrine. Driven to action as they feel themselves to be by the pressure of surrounding circumstances, they accept coöperation as a mystic formula destined to usher in the economic millennium, without in any real sense attaining an understanding of its purposes and methods. Likewise, misunderstanding or misrepresentation of the real nature of the coöperative form of economic organization has caused many persons outside the movement to view it with quite needless alarm as the creator of monopoly and the breeder of a harmful class-consciousness. A better common understanding of the several distinctive features of the coöperative form of organization is indispensable if legislative proposals are to be correctly appraised and the various features of organization and practice wisely regulated. The coöperative movement is putting laws on our statute books and giving rise to cases in our law courts. It is presenting problems to the accountant and calling for rulings by income tax officials. It is entering into business relations with other commercial organizations; it is soliciting members and patrons, and seeking persons or institutions to finance its operations. These relationships are being made awkward, uncertain, and often disastrous because of a general failure to grasp the principles upon which coöperative organization proceeds.

The movement grew up out of the circumstances of the Industrial Revolution and was a reaction against the early abuses or, at least, rigors of the capitalistic industrial system. Ground between the upper and nether millstones of low wages and what by comparison were high prices, the factory hands of Britain, seeking any and every path of escape, finally found what seemed a practicable measure of relief in the

establishing of non-profit stores upon a model perfected by twenty-eight weavers—the now famous Rochdale pioneers. Three “fundamentals” are generally held to have constituted the theoretical basis of their practical success:

1. Increased efficiency or reduced costs of service: no credit, no solicitation, and gratuitous or nominally paid service by members.

2. Popular distribution of savings or profits: minimum interest paid to invested capital, any surplus to go as patronage and wage dividends.

3. Democratic control, each member voting as an individual.

In spite of some interaction among them, these three premises represent three salient points of economic theory actuating the coöperative movement as something distinct among forms of economic organization. They register a threefold protest against the costs and wastes of the competitive selling system, against capital as the residual claimant of profits, and against the identification of economic control with stock ownership and the accompanying tendency toward concentration and autocracy.

However incomplete or confused may have been the thought of the Rochdale weavers on these three points or of any other subsequent group of coöperators unversed in the lore of economics, the continued adherence of the older bodies and the constant accession of new converts seem to argue that there is in this coöperative philosophy something which must be reckoned with as a factor in the future evolution of our economic life. Let us examine the matter from each of its three aspects in turn.

## II

The first of the coöperator's three tenets, stated in its broadest terms, is that coöperative business is more economical and efficient than what he is pleased sometimes to call “private” business and sometimes “competitive” business. Several points of attack present themselves here. Like the humble beginners of Rochdale with their plain little store in Toad Lane, most coöperative enterprises dispense with enticing display and frequently use the volunteer help of their members to a greater or less extent. The cash payment plan is much favored not alone because it simplifies the management and accounting system and cuts down interest as an operating expense, but also because, from the standpoint of the buyer, it protects him against the temptation to spend more than he should.

It is evident that, in so far as all this represents a curtailment of actual service, there is no increase of operative efficiency, however much prices may be lowered thereby. But if it provides the consumer a means of escape from the necessity of buying, along with every article

which he purchases, certain appurtenant services which he is willing or even anxious to forego, but which have been inseparably attached to it by the prevailing system of competitive shop-keeping (and which in the end he must pay for), then the inauguration of the new system does mark a real step in individual and social efficiency. To be sure, if clerks' and bookkeepers' labor be rendered gratis, this is either charity work or by-employment for the consumer through which he is enabled to apply his labor in part payment for his food and clothing. Frequently this feature of amateur service is found ineffective and is abandoned.

But back of these details, which may seem petty, lies a more significant matter, namely, an attack on the real wastes of competition. In so far as the coöperative store represents the voluntary assembling of orders by the consuming group or the guidance of the process of market distribution and, back of that, of production itself according to the needs of the consumer, it proposes a quite distinctive and vigorous attack on the problem of economic efficiency and social economy. It enunciates the principle that business activity should be a means and not an end. It brings to tangible expression the growing feeling that our modern society is organized too exclusively in the interest of the exploitative tradesman and the not less exploitative manufacturer. The coöperative consumer suggests that entrepreneurship has rather gone to seed. Says he: "The trade of all these stores is nothing more than the assembling of goods to satisfy my wants. I am the only well-informed judge of these wants and am the most natural and effective agent for bringing them to expression as the effective demand of the market. If I pay not only for the goods but also the expenses of a horde of retainers for all the the purveyors of these goods fighting to see who shall have the privilege of serving me, I must necessarily have less to eat and wear in exchange for the money I spend. Why this duplication of brands so indistinguishable from one another as far as their essential qualities are concerned? Why these traveling salesmen spending money like water to keep one another from supplying my wants? Why these acres of expensive advertising matter to wean me from a good and satisfying breakfast food to one no better nor more satisfying, but possibly a little more gaily (and expensively) caparisoned for its journey to my kitchen? Why these redundant merchants and half-idle clerks nominally in my service?"

Nor is all this some strange brand of economic heresy. The more thoughtful of the progressive group of modern economists have noted the same phenomena and have deplored "the backward art of spend-

ing money",<sup>1</sup> or have speculated on "the consumer's ability to defend himself."<sup>2</sup>

"Salesmanship" so called has become our god; and "to sell," a cant phrase connoting ensnarement of the public in any connection from religion to bathroom fixtures. "Buymanship," not as yet so called, is a natural reaction, and coöperation is one of its manifestations. The pooling, standardization, and rationalization of wants as the first step toward their more economical satisfaction may be done through a retail store to a limited extent; through a federation of such stores and the development of their own jobbing and wholesale agencies, much further. The movement in Great Britain and to some extent on the Continent has passed beyond this stage, and even the costs of competition between rival manufacturers have been eliminated by establishing consumer-controlled manufacturing plants. In addition to the fact that purveyance according to this pattern relieves industry of the cost of finding, stimulating, or proselyting a market outlet, organization on this scale also brings to the service of the consumer the economies of business integration. This can be and is done under private auspices also, but the ardent coöperator believes that the coöperative plan will achieve this more fully than can be done otherwise and, still more important, that such benefits as do accrue will go as price reductions to the consumer and not as monopoly or efficiency profits to the trust or consolidating agency, whatever it be. This raises some far-reaching questions both of the theory of wealth distribution and of economic control which, however, must be deferred for the moment.

But before leaving this phase of the matter we should notice that the argument that coöperative organization provides better economic service at lower cost is adduced by producers as well as by consumers. Says the farmer: "Why should I support seven local livestock buyers scouring the country in cars such as I could not afford, each trying to get a little more than his share of a business that would profitably

<sup>1</sup>See article by this title by W. C. Mitchell, *AMERICAN ECONOMIC REVIEW*, vol. II, p. 269. "Our faults as spenders are not wholly due to wantonness, but largely to broad conditions over which as individuals we have slight control. . . . If this work could be taken over for many families and conducted by a business enterprise it would be subdivided into several departments, and each department would have its own minute division of labor. Then there would be the commissariat with its trained corps of purchasing agents and chemists, each giving his whole working day to the buying or testing of meats, or vegetables, or groceries." Aside from a casual reference to the possible but improbable coöperative kitchen, Mitchell let slip the excellent opportunity to apply his observations to the coöperative organization of consumers.

<sup>2</sup>See *Materials for the Study of Elementary Economics*, pp. 374-6. The reading presented under this caption is from Cherington, *Advertising as a Business Force*, and closes as follows: "The consumer problems of the modern advertiser are not merely to discover buyers of goods and to exploit them. They are as intricate as war plans."

occupy but one man? Since our stock will all be shipped from this station anyway, is it not wisdom to appoint a single agent who will arrange convenient shipping days when we shall drive in our stock and dispatch it to market with a minimum of effort and of time consumed?" Horticultural regions have in numerous instances organized and integrated the business of a whole producing region into assembling, processing, distributive, and jobbing agencies of high efficiency. They have eliminated competitive wastes both at the local shipping point and at the central and jobbing markets. Furthermore, they are the instrumentalities of the producer and owner of the goods, and hence likely to be more aggressive in the effort to reduce expense and wastage in the handling process and to improve quality and enlarge outlets than is the middleman who works on a commission, assuming always that the association develops a practicable form of organization and is willing to pay for technical ability.

To be sure, the process of direct buying by terminal wholesalers and the integration of large distributive companies under trade rather than producers' auspices has given us a type of middleman who possesses all or many of these same virtues.<sup>3</sup> But aside from the fact that the producer grudges them the profit which they may make upon the operation, he feels that the fact that they are in business for their own profit rather than specifically for his service, means that their offices do not meet all cases and are particularly likely to fail at a pinch. This is especially true in the case of a new producing section or of a new development in an older area. Let us say that a small fruit-producing section has just been brought to bearing. The area is far from any large market, the product is perishable, and hence both risk and expense are high. Volume is not large enough to attract a private distributor. But success or failure, the salvaging of their investment, or the continuance of their life work may be at stake on the part of the growers. Hence it is argued (and demonstrated in practice) that the coöperative association of producers frequently achieves results where private outside entrepreneurship fails.

A third and last phase of the argument that coöperative organization effects gains in economy and efficiency touches productive operations. The modern farmer<sup>4</sup> finds himself involved in a productive process which, if efficiency is to be secured, demands a variety and fre-

<sup>3</sup>See the highly suggestive monograph "*Coöperative and Other Organized Methods of Marketing California Horticultural Products*" by Professor J. W. Lloyd, of the University of Illinois, Univ. of Ill. Studies in the Social Sciences, vol. VIII, no. 1; and Nourse, *The Chicago Produce Market*, ch. 4.

<sup>4</sup>I speak here only of the farmer, although in theory at least the coöperative form of organization is applicable also to industrial processes and is so used to a limited extent in printing, textile manufacture, cigar-making, iron founding, bakeries, and the like. It is discussed at a later point in this paper.

quently a size of capital equipment in excess of the carrying capacity of the one-man farm and a labor specialization quite outside the scope of the individual farm personnel.<sup>5</sup> To meet this emergency, a whole host of coöperative associations organized along lines of functional specialization have developed in the United States and to a much lesser extent in other countries. One of the earliest was the "thresher ring," which pooled capital contributions in such a way as to bring steam power to the ordinary small farm. We now have silo-filling and power-spraying organizations, cow-test associations, sire-owning groups, and even coöperative budding, pruning, picking, packing, fumigating, and in several cases investigational work. A wide variety of specialists of high-grade trade or professional competence work for coöperative farm groups on a salary basis. All these cases embrace services which the producer is convinced he gets cheaper or better by providing them for himself on a coöperative basis or, in many cases, which he could not get at all if he relied on the profit-seeking enterprise of outsiders.<sup>6</sup>

### III

Possibly dearest to the heart of most coöperators are their theories of distribution. A coöperative association differs from the ordinary incorporated company in that profits, instead of being paid as a stock dividend, go as a "patronage dividend" or as a dividend or bonus to labor, or both. Capital invested in the business is generally allowed the going rate (though sometimes a little more or a little less) but either the patron member or the laboring member is viewed as the proper residual claimant to any surplus above the cost of supplies and the payment of contractual shares of income. This has led to a rather common practice of referring to coöperation as being the opposite of capitalism or of saying that coöperation displaces profit-making and substitutes service as the motivating force in business. Coöperative associations are asserted to be non-profit bodies and a non-stock form of organization has been worked out.

In all this there is obviously some tendency to confuse capitalism as a distributive category and "the capitalist" as that one out of the

<sup>5</sup>The writer has developed this phase of the matter at some length in the *Yale Review*, October, 1918.

<sup>6</sup>In addition to coöperative undertakings in connection with his work as producer, the American farmer (and likewise his European brother) does a deal of joint buying, either through a coöperative store in his market town or, with better success, through his elevator or other shipping organization. This principle of coöperative supply extends to services as well as commodities and to social as well as purely economic requirements. Merely to list the farmers' telephone lines, farmers' insurance, community stock pavilions, laundries, ice-houses, recreation centers, movies, and the like, shows the variety and vigor which coöperative organization manifests in bringing to the countryman facilities which would offer no inducement to profit-seeking private enterprise.

whole family of capital owners who has acquired exceptional economic power through the concentration of wealth in some few hands. The coöperator's actual objection is not against capital dividends merely as interest at the market rate on tangible investment but against the piling up of such dividends at an excessive rate, or against the capitalization of putative earning power into watered stocks which shall thenceforth be claimants before price-governing tribunals or at the bar of public opinion equal in repute and authenticity to actually paid-in capital. Granting that, in the absence of any factor of monopoly, such a level of charges cannot be indefinitely maintained, the coöperator asserts that what the consumer does pay should go to reward the worker instead of being absorbed by the promoter. His quarrel is with the promotional system on distributive grounds even as it was on grounds of efficiency. Any dividend distribution of profits in excess of a conservative interest rate is taken, he says, from some more suitable claimant to be given to capital simply because it assumed some risk in its entrepreneurship. But where producers or consumers are organized coöperatively, the risk is thereby removed from the business and the claim of capital can consequently be reduced to its competitive contract share, service to either buyer or seller being thus brought down to a strict cost-of-service basis. All business is merely the working of producers to supply the wants of consumers. If, says the coöperator, we arrange a straight and easy channel of organization whereby the wishes of the consumer are transmitted to producers as contracts or orders (much as in the custom-work régime which preceded the factory system) then speculative profits, losses, and wastes can be dropped out of our future arrangements with capital. Hence, if any surplus appears in the operations of a coöperative association, it is viewed as an overcharge to the buying patron or an underpayment to the selling patron or to the member-worker. After making what seem proper deductions for reserve and, generally, an educational fund, it is returned to the proper party, or parties, as a dividend or refund.

Here arises a weighty problem. Who *is* the "proper" party and upon what canon of judgment is his nomination based? If coöperation is in some sense (though not consistently and merely) anti-capitalistic, as we have seen above, is it pro-labor? To this we must answer that it is a working-class movement and has generally endeavored to include a dividend to labor along with that to patronage. Obviously the dividend to labor occupies the center of the stage in industrial coöperation or labor copartnership. However, even here no attempt is made to divide profits with other laborers who have contributed to an adjacent stage of the complete economic process—by paying a premium, for instance, on raw material produced by the miner or the farmer. Likewise, in case these latter organize on coöperative lines, they are likely to drive



as hard a competitive bargain with the coöperatives to whom they sell as they would with the capitalistic employer of similar workmen. In both cases the coöperative group would be coöperating to raise labor rates within the group and, if need be, to lower them outside the group.

This imperfect adhesion to a labor theory of distribution is further noted in the fact that the bonus or dividend to labor, though still provided for in our statute books, is a dead letter in practice; the great British Co-operative Wholesale Society has had a fair share of labor troubles and strikes among the workers in its plants; and producers' and consumers' societies have found their efforts so antagonistic as to be unable to deal together and hence, in certain cases, have even come into open conflict. To this we shall return under the discussion of theories of control.

In America it is coöperation among farmers which assumes by far the chief importance. The farmer is prone to argue the soundness of coöperative practice on the ground that it is designed to distribute profits to him as a "producer" rather than to the middleman or the manufacturer. Should this be written "the capitalist middleman" and "the capitalist manufacturer"? This might seem clear in the average farmer's attitude to the grain exchange broker and the "Big Five" packers, the Quaker Oats Company, and the like. However, the same farmer is just as wroth at the union wage which enters into his stockyards handling charge or into the spread between the steer price and the price of beefsteak. Taken from the other side, the rural "producer" who looks to coöperative organization as a means of keeping up a necessary level of his returns is quite as desirous of getting a good return on his invested funds as on his labor as such. In fact it may be asserted that one of the keenest motives back of the present boom in agricultural coöperation in the United States is the desire to maintain the existing prices of farm land. There has never been any definite suggestion that it should benefit the hired man.

All in all, it can hardly be said that the distributive ideal of coöperatives is to make labor as such the residual claimant to surpluses or profits. It seeks to eliminate the whole profits category,<sup>7</sup> but in the

<sup>7</sup>It seems clear too that in the minds of a very large number of coöperatives this includes the factor of differential returns to personal service in the form of high "executive" salaries or directors' fat fees. Possibly it might have been mentioned under the efficiency argument that coöperative organization abolishes sinecures and ornamental salaries. As a question of operative efficiency, the matter is significant in that the change from the promotional principle to one of self-service brings relief from the necessity of buying names which will carry prestige with the public. It is argued that people can better direct their own business without special remuneration than pay munificently the exploitative expert to direct, or misdirect, it to some other end. On the one hand we have the ancient wheeze to the effect that no self-respecting railroad president can have his mind clear and placid for the consideration of great problems of management unless freed from the worries of

consequent readjustment these margins must be allotted as benefits to some party in the organization. The working-class group which effects organization on the coöperative plan may, after providing a patronage dividend to itself, carry its sympathy for other wage workers to the point of allotting something to the payment of a bonus or dividend to labor or may similarly divide with that other "producer," the farmer from whom they buy supplies, by paying a better price for his wares than might be if they pushed the advantage of their bargaining power to the last possible point. So too the producer coöperator talks much of benefiting the consumer by not exploiting him in the price charged.

It must be admitted, however, that the practical difficulties in the way of shaping a business policy to the advantage of three or even two parties whose interests are mutually antagonistic have caused this fine theory to give way to one less altruistic but more easy to expound and more simple to apply. This means that coöperative features shall apply to those within the one group which effects the organization, but that competitive bargaining shall run its course—not savagely perhaps, but as effectively as may be—in their relations with other groups. We might call this militant coöperation as against the utopian coöperation of the older school. It has led, as noted above, to the dropping of the labor dividend quite generally in America, to factional differences between producer and consumer coöperative associations both abroad and at home, and has raised up a coöperative cult in America which cries down the Rochdale principles and exalts the new "coöperation American style," along lines of big business bargaining efficiency and ruthlessness. It is producer coöperation, legalistic the impecunious by a salary of \$100,000 or \$150,000 or whatever. On the other is the modern instance of the members of a farmers' elevator association unable to be persuaded that it takes more than ordinary hired man's wages to get a competent manager for a business of several hundred thousand a year. Obviously there is a golden mean, and the psychological factor must be given due weight. Thanks to a genuinely coöperative spirit, the great consumer wholesale societies of England have been able to retain able managers at salaries of four hundred pounds, directing business which runs into the millions.

On its distributive side, the coöperators have a shrewd perception that exorbitant or superfluous salaries and directors' or experts' fees are a part of the surplus which they seek to salvage for the working class. They view them as profits just as truly as though they were paid as dividends instead of passing through the fiction of a payroll, for the sake of making the dividend rate sound less, but in fact of concentrating still further the enjoyment of the surplus. Doubtless the sound position in the long run would be attained by bringing the coöperatives up from the position of exploiting the loyal few for gratuitous service to the place where they pay the true competitive rate for necessary service, and of bringing down to the same basis those corporate servants whose competitive wage is sweetened by a slice of the profits of the business. Any such glib formula quite patently begs the nice questions as to the real nature of the price-making process for personal services which partake of the nature of quasi-rents and of the extent to which the whole schedule of such service prices depends upon present institutions of profit-making and profit-sharing business.

in philosophy, monopolistic in spirit, and zealous for control of the market. In the case of the Associated Raisin Growers of California, it has adapted the voting trust to its uses and has fallen foul of the Federal Trade Commission in its course. It has clamored for exemption from general laws prescribing fair practice for all business, and has had some success in putting such exemptions on the statute books. Doubtless, however, the present tendency toward the infusion of predatory ideas will in due time be repudiated by the better element, while yet retaining the necessary singleness of purpose and vigor of action. Some further light on this question of the rival claimants to pecuniary benefit will perhaps be shed by the discussion of principles of control as set forth in the next section.

#### IV

The third of the chief considerations of coöperative theory touches the matter of business control. In the ordinary corporation, control is in the hands of stockholders and tends thus to be identified more or less specifically with capital ownership. Furthermore, there has been a tendency, through the limitation of voting power of preferred stock and the general withholding of the vote from capitalists whose capital contribution is evidenced by bonds, through the use of proxies, and through the device of the holding company and voting trust, to concentrate control in the hands of a few. The original control group, likewise, has often entrenched itself further in power by offering any new issues of stock to itself upon favorable terms or by transmuting accumulated earnings into stock dividends.

Against these control features of the ordinary stock corporation the coöperative philosophy sets up three protestant counterproposals as follows:

1. All invested capital should be put in the category of loan funds, divested of voting power or control over the affairs of the association. Instead, voting power should go to members duly admitted because of their participation directly in the business to be done by the association.

2. By the prohibition of proxies, limitation on the amount of stock which may be held by an individual, abolition of holding companies and trust arrangements, and the transfer of governing power to members, each of whom votes as an individual, democracy of control is substituted for the old autocracy.

3. Instead of closed stock lists and mounting dividends or the cutting of "melons" for the few, coöperative organization requires a membership list open at all times to any person of good repute who is engaged in the business which is carried on by the association, his membership to terminate whenever he ceases his participation in the given pursuit.

Possibly all this may most conveniently be summed up in the observation that coöperative organization aims to perfect a system of bringing many individuals together in business associations which will retain the personal interest and responsibility of the individual, instead of submerging it or allowing it to be lost as is the case in the highly impersonal form of the ordinary corporation. A phrase of wide usage among coöperators is to the effect that the coöperative association is a union of persons, whereas the joint stock company or corporation is a union of capitals. Obviously the capital contribution to a stock company must have a personal (or institutional) owner. But it has been one of the strong features of the corporate form of business that it could make its appeal to a large and widely scattered public following on the basis that no personal participation in the affairs of the company is required; and it has been a rather notorious fact that even the great leaders of railway, industrial, and mercantile corporations have in many cases known little or nothing of railroad operation or the steel, leather, sugar, or whatever business which was to be carried on by the company. Their contribution has been that of the "financier," promoter, or, alas, stockjobber, and success in operation, if it was attained, has been thanks to the skill of a hired manager and his subordinates.

The coöperative society proposes quite a different scheme of things. It does not fare forth into the world of ordinary commercial achievement, aiming to derive a profit from the carrying on of business with the general public. Instead, it brings together a group of people who, having a common need of certain facilities, set up a mutual service agency to operate at cost under the personal control of such persons, who themselves contribute the patronage upon which it depends. When the stock corporation has received the stockholder's contribution of capital, it is practically unaware of him as an individual. Depersonalized stock floats about the exchanges and its ownership may change hands a dozen times a day. Certificates may be loaned about among brokers who represent short sellers or may lie for years in the original investor's strong box, while "stockholders of record," though they have long since sold their holdings, may legally vote in annual or special meetings or give proxies to the aggressive minority who exercise actual control.

Capital contributions must, of course, be made to the coffers of the coöperative association, but the coöperator holds to the notion that "the gift without the giver is bare." The association puts his personal participation in the patronage and in the control and direction of the business as the first desideratum and makes the loaning of capital a subordinate matter, although it is felt to be desirable that everyone shall have some stake in the capital investment. Hence a truly

coöperative organization is one which consists only of participating members each of whom makes his individual business a part of the joint business of the society. In so doing he must assume the responsibilities as well as the prerogatives of voting control as the counterpart of his claim to enjoy the benefits of the society's service.<sup>8</sup>

The fundamental principle of "one man, one vote" is sometimes modified so that voting is in proportion to patronage. For example, it may be put on number of cows or weight of milk in a dairy association, or on trees, acres, or boxes of fruit in a horticultural association. Nevertheless, the idea is tenaciously held that membership is personal and that control should be democratically apportioned, with no additional preponderance given to wealth. Not only is it argued that God has given as much brain power and ability to the man of small means as to the wealthy, but the self-respect and interest and loyalty of each is preserved and developed by this recognition of personal equality. In a word the coöperator believes that the case is as good for economic as for political democracy.

The third feature of coöperative control grows out of this idea of personal membership based upon participation in the given pursuit. Just as political government extends its membership and benefits to include all natural growth of our population or such immigrants as definitely assume the responsibilities of citizenship; just as the church opens her doors and offers her ministrations to all who express a willingness to participate in her services and accept her regulations, so the coöperative association as an institution of service keeps its membership open to include all who wish to join with others of like economic interest under such a plan as is set up in the articles of incorporation and by-laws. Instead of benefits being concentrated in the hands of a limited group of stockholders, they are to be freely (and, it is maintained, equitably) distributed to all persons actively participating in the business. All outsiders merely seeking a proprietary interest are rigidly excluded.<sup>9</sup>

<sup>8</sup>There are obvious difficulties in carrying this principle out in practice. The best method with the coöperative store seems to be to sell goods at prevailing prices and place dividends accruing on non-member purchases to the credit of such non-members for the purchase of a share of stock (or the issue of a certificate of indebtedness). To remain truly coöperative, however, the store should deal only with persons who signify their intention of becoming members. In the case of selling societies the same situation arises if the association buys the product from its members. If it be pooled or handled on a commission basis, only members would be allowed to employ the facilities of the association, except at small shipping points where such a practice might deprive persons of a local market or coerce them into joining. In such cases their business might be handled on a service charge basis. Such a situation, however, is unfortunate.

<sup>9</sup>In the hybrid stock-issuing form which coöperative endeavor has often been constrained to take, the satisfactory carrying out of this principle has been difficult. Such a capital stock is not sufficiently flexible. Under the non-stock form now

With the passing of the feudal era, the day of freedom of economic enterprise ushered in the small independent business man with his little handicraft shop, his small store, his family farm, or what-not. Note has been taken time and again of the stimulus to industry, thrift, invention, political stability, and social progress which came thereby. However, the progress of the arts has been such as to call for larger and ever larger operating units, and in the process of constructing them natural leadership has given rise to economic institutions and legal forms which have both concentrated control to a degree hardly less great (though in a form less rigid) than maintained under feudalism. The proposals of the coöperatives simply represent an effort to devise a form of control which will permit of the benefits of large-scale<sup>10</sup> organization but will restore the independence and utilize the personal contribution of the many under thoroughly democratic principles.

## V

To anyone who is accustomed to thinking solely in terms of the orthodox type of business organization and who has not read or listened to the words of coöperators, such exposition as has been offered above presents the outlines of a wholly unfamiliar economic system. It is not, however, for that reason merely to be classed as what is smartly known today in certain circles as "Alice economics." The more prevalent arrangements as to economic organization and control and the distribution of wealth enjoy no absolute sanction, and it is neither socially nor intellectually compromising to dally with these somewhat revolutionary proposals. To most people of open mind the philosophy of coöperative organization will no doubt "make sense." But, granting that there is no more of a categorical imperative behind the patronage dividend than there is to support dividends on capital stock, we are constrained to view our problem in the light of pragmatic tests. Can the coöperatives "get away" with their schemes of business on a basis of "equitable association"?

In approaching this question we must get the fact clearly in mind that coöperative proposals, if pushed to their logical conclusion, amount to the setting up of a new machinery for the making either of commodity prices to the consumer or of the price of labor to the worker. Being dissatisfied with the economic position in which the rank and file of the great working class find themselves after having possible in several states, however, capital contributions can be readjusted annually through a revolving fund evidenced by members' certificates of indebtedness.

<sup>10</sup>Through the system of federation of local associations into district and, in due sequence, state and national units, any necessary size can be attained. Cell by cell the growth may proceed from the individual to an organization coëxtensive with the industry. The evident check upon such development is to be found in the loyalty and intelligence of the membership and the quality of leadership.

sold their labor, or the product of their labor, in the labor or raw-materials market and having bought their subsistence goods in the commodity market, they feel that the "middlemen and masters" have developed market institutions for both labor and wares which result in an equilibration of demands and supplies upon terms favorable to the employing and trading classes but highly unfavorable to the working class. The laborer who adopts the coöperative philosophy feels that only by abolishing the wage system and putting himself in control of the process of production and market distribution can he get the full value of his labor as embodied in the consumer price. The consumer on the other hand feels that he pays more than the goods he purchases are "worth" properly speaking, unless he sidesteps the ordinary market system and supervises the whole process, appropriating everything above the going or market price of the services and materials which enter into the production of his consumption goods. Obviously the producer cannot achieve economic salvation on the basis of such a consumer's price, nor can the consumer take such a producer's price as the datum plane for the sort of economic organization which he is seeking.<sup>14</sup> Two such systems of relativity based each upon the other would be as impossible as to have two suns in our solar system.

It is a comparatively simple matter to work out a system of production and consumption for a small co-laboring community in which satisfactions are limited to what can be produced within the group and each member gets his  $n$ th of the product (with at most insignificant premiums to the leaders of the group or deductions from the humblest members). But perhaps the chief merit which coöperation claims over such communistic proposals is that it contemplates the maintenance

<sup>14</sup>This throws into clear relief the distinct economic service which is performed by the despised middleman system. It maintains a buffer state between producers and consumers in which the equating of supplies and demands is carried on, to the end of making prices as a necessary adjunct to the transfer of goods. Incidentally it makes prices for a large volume of direct transactions which do not pass through the organized market. In fact the success of such direct dealings as we now have is dependent to a large extent on the existence of such markets, since a price basis can thus be readily arrived at and any savings in marketing costs readily perceived. Even so there is likely to be considerable ill feeling between the two parties, both of whom wish to appropriate the whole of this saving or, not knowing what the handling margins really are, try to overreach each other even more than the middleman does. For instance, the high hopes entertained for parcel-post marketing were dashed in large measure because of the insistence of the producer that he get more than the current retail price and the equal insistence of the buyer that he get his goods at less than the farmer could get from the local trader. Similar difficulty has been encountered in arranging direct sales of feeder cattle or of potatoes or apples from coöperative shipping societies to coöperative buying organizations. With this situation existing when market quotations are available and only the equitable adjustment of "margins" is at issue, it should be evident how extremely difficult would be the building up of a whole valuation process in such transactions in the absence of a third-party market mechanism.

of present standards of living and of productive efficiency and seeks a plan of organization suited to modern conditions of minute division of labor, extreme geographical specialization of production, and world-wide exchange. To do this, some one party to the given economic process must become the pivot of the organization, even at the possible sacrifice of others. The real motive which lies back of any proposal to displace the manufacturing or trading entrepreneur of the present system is that some other party to the economic process may put himself in charge and thereafter direct the system in a way which will give to his class a greater share in the benefits. The basic argument of coöperation then is that it has devised a new working machinery which offers the legal and technical possibility of so doing, under the direction and in the interest of either the industrial laborer or the consumer as such, or the individually organized producer of market wares, notably the farmer. The practical application of the coöperative form to each of these three purposes respectively gives rise to decidedly different situations and problems.

In the earlier days of coöperative development men even of the standing of John Stuart Mill<sup>12</sup> entertained a confident hope that reorganization under coöperative auspices by and for the laborer promised "a transformation which . . . . would be the nearest approach to social justice and the most beneficial ordering of industrial affairs for the universal good which it is possible at present to foresee." History has belied this expectation, doubtless because, first, of the nature of our industrial technique during the period in which the experiment of labor copartnership was being tried and, second, because of the nature of the wage-worker himself.

In the swift development of one and then another form of mechanical power and the amazing evolution of ever larger and more costly machine equipment and large-scale and complex forms of business organization and commercial and financial institutions, it has been impossible for a new principle of economic control and remuneration of a democratic type to gain a foothold in competition with the old régime, whose captains of industry and trade and finance were quick and daring, resourceful, experienced, and as it seems impregnably entrenched. The race has been to the swift and the battle to the strong. While craft workers may establish and run a coöperative shop successfully, the ordinary mind can hardly conceive how the coöperative system could have got a foothold in the automobile industry or in the manufacture of steel or rubber or electrical equipment. We have had coöperative stove works, printing, baking, and cooperage concerns, and a very few of them still survive. The coöperative cooper shops passed with

<sup>12</sup>*Principles of Political Economy*, book IV, ch. 7, sec. 6.



the introduction of barrel-making machinery, and in general the process of industrial integration swallows sub-industries of the scope best suited to coöperative organization and to erase or blur craft lines.

Both because of this and because of the nature of the laborer himself, it is inevitable that trade unionism as a militant organization for getting a substantial share in the fruits of this increasing productivity should seem a swifter, surer, and more pleasing method to the labor rank and file, and about all that was possible in the face of the demands made in the way of technical management and capital equipment.<sup>13</sup> The laborer's lack of education, self-control, and thrift, as well as his poverty, have militated against his utilizing the devices of coöperative organization to better his lot, however sound their proposals may be in and of themselves. The exponent of consumer coöperation, however, asserts that even at best producer coöperation does not meet the situation, because the producer or laborer is likely to prove as prone as is the capitalist manufacturer or trader to utilize every strength and strategy of the market to force up prices in his own interest, which results in the exploitation of the consumer. Deferring for the moment the question of the agricultural producer, we will examine the consumer argument.

This is the prevailing cult of coöperation in England and Scotland and to a considerable extent on the Continent. Starting with the retail store, it has integrated jobbing, wholesaling, and import trade under the control of large, organized consumer groups. To supply this trade it long ago undertook manufacture on a considerable scale, and in time added tea plantations and wheat lands abroad and milk, vegetable, and fruit farms nearer home. The consumer societies have their own steamships and banking departments. They have done a little coal mining and are seriously considering the acquisition of extensive coal and iron resources. The extremists of this group believe that the whole economic system should be directed and controlled by the consumers, organized into coöperative societies and federations, the motivating force being always and only the community's desire for goods as expressed through their society.

Such a "coöperative commonwealth" is surely a heroic remedy for the admitted "planlessness of production" under the existing régime.

<sup>13</sup>One of the chief drawbacks of the coöperative plan lies in the fact that it presupposes the getting of capital into the hands of the members. It is all very well to point out that capital goes through a continuous process of reproductive increase, *i. e.*, is accumulated from the profits of the business itself and hence does not demand that the workers secure it from outside or save it out of present wages. But what they are after is an immediate increase of their wages and it is a hard matter to educate them all up to the point of being satisfied with putting these profits back into the business until such time as they have it suitably capitalized and are able to enjoy the larger return.

It implies a regimentation of the worker's conduct which would doubtless prove highly distasteful, and would threaten the development of a bureaucracy which would be both distasteful and dangerous. It may be confidently predicted that the animosities it would provoke and the blunders it would commit would check a growth so great as really to threaten the present system of entrepreneurship. It would in fact pass from the realm of voluntary association to one of coercive socialism. It is frankly recognized as such by its advocates, who expect such public utilities as railways, steamships, and the telegraph, which are inherently unsuited to a coöperative adjustment of charges, to be taken over by the state, thus dividing the field between state socialism and socialism of the consumer society pattern. "In this way the coöperative movement would become recognized as, what it in fact is, the industrial wing of the democratic state."<sup>14</sup>

The accomplishment of any such comprehensive result is, as most consumer coöperators themselves admit, confronted by an array of difficulties both internal and external which may well prove insuperable. The steamship development alluded to above has proved ill advised and Canadian wheat growing will doubtless be found not less so. Whether as a result of the stimulus produced by the remarkable development of coöperative stores in England or due to the natural process of business evolution, merchandising improvements such as chain stores are giving the coöperatives keen competition in the matter of net prices, without making similar outside demands upon the patron's support. All in all, it seems likely that there may have to be a shortening of the far-flung line of attack upon the existing economic organization if consumers' coöperation is to hold its own in that territory which would seem distinctively to belong to it. Even so, its permanent presence and aggressive ideals of economy and service should prove an invaluable spur to other agencies and an abiding safeguard against undue exploitation or inefficiency. At the same time that the consumer coöperators are establishing and keeping open this alternative channel between the consumer and the great centers of *haut commerce*, the agricultural producer can advantageously avail himself of this same coöperative form to open and maintain a channel from his farm to the factory or the wholesale or even retail market, challenging all other forms of organization in point of efficiency and service.

## VI

It is in its third field, agriculture, that the attempt to apply the coöperative form of organization to modern economic needs and problems has been by all odds the most important in America—both Canada

<sup>14</sup>Woolf, *Coöperation and the Future of Industry*, p. 115.

and the United States. Agricultural coöperation, of course, does not mean coöperative farming. The latter is a sickly growth found only in the hothouse atmosphere of a few fanatic colonies. Agricultural coöperation means the association of farmers, stockmen, orchardists, or the like for the joint performance of certain parts of their business which cannot be satisfactorily carried on alone. Its theoretical implications are not precisely the same as those of either consumer coöperation or labor copartnership. The chief difference is that the point of view here is preëminently that of functional reorganization rather than comprehensive economic regeneration. We have noted that the advocates both of consumer coöperation and of labor copartnership would displace the existing market or competitive system of price making and would fund economic organization in the interest of some ideal adjustment, aspiring ultimately to consumer socialism in the former case and guild socialism or syndicalism in the latter. Somewhat paradoxically, the farmer proposes to use the same structure for the opposite purpose. Being a self-employed worker, generally a capitalist of parts, and frequently the employer of a few additional wage hands, he seeks to keep the freedom of personal initiative and looks to coöperative joining of these small operating units as a means of enabling him to hire special labor or secure special capital equipment most advantageously. Taking the essential facts of the market as he finds them, he seeks merely to put himself in the most effective position with reference to it.<sup>15</sup>

A moment's reflection must suffice to show that the coöperative faction in agriculture is the conservative wing of the industry. This bourgeois element sees in the coöperative association merely a new legal form peculiarly adapted to the needs of modern agricultural industry. Using this form, it seeks to organize such a range of activities as can be effectively integrated and to distribute the economic benefits of this efficiency so broadly and equitably as to insure the prosperity of the whole body of family-farm operators. There is no attempt to introduce any distinctively new principle of industrial guidance such as is proposed in the elaborate scheme of consumer coöperation. But it is proposed to put the individual members of our agricultural industry in an economic position compatible with the demands of modern economic life both as to productive efficiency and as to distributive justice. Possibly the keynote of the philosophy lies

<sup>15</sup>This is far from meaning that farmers are satisfied with existing commodity prices, or even with the present operation of the market mechanism. The farmers' coöperative movement does, however, accept the essential necessity of prices being struck by the equilibrium of demands and supplies in the market. Their proposals for the modification of their supply relationship to this market and the allocation of these values among their members are worth a detailed examination such as is quite impossible here.

in the idea that a means must be found for giving agriculture a type of organization whose productive and bargaining units respectively will expand in step with the growing needs of the agricultural technique (and its accompanying capital demands) and of the size requisite to an effective bargaining position in contact with the units of commercial organization with which they must deal.

Thus, for example, the live-stock grower feels that he must consolidate the selling function to the extent which will put him on a parity in all the great stockyards markets with the consolidated buying power connoted by the existence of the "Big Five" packer. The dairymen likewise first devised the local creamery as an effective means of meeting the competition of the small private creamery characteristic of the time. Today, however, the competition which they must meet is that of the great centralizer creameries, which advertise their product direct to the consumer and carry their selling clear through to the retail grocer. This must be met by a distributing organization of equal scope, which implies federation of the coöperative creameries of a region embracing a whole state or several states or parts of states in a producing section. Such a development puts the solidarity of a group above the selfish interest of the individual and its successful working demands team work and a spirit of self-reliance which expresses the belief of the coöperating group that together they can work out their own salvation in their relations with other groups and interests. The coöperative clings to the belief that these wholesome results can be secured by voluntary and democratic association. While mildly, one might say stimulatingly, class-conscious he is by no means socialistic in his thought as is the radical rural faction in the less economically secure (though not fully proletarian) left wing which confesses itself beaten unless it can effect some improbable affiliation with industrial labor or be gathered to the bosom of state socialism after the pattern of the Non-Partisan League or otherwise.

So independent and vigorous in fact is the philosophy of agricultural coöperation that consumer coöperators are prone to charge it with being no less exploitative than any regular capitalist producer. Doubtless this is in some measure a real danger, as may be deduced from a study of some of the advertising matter and legislative activities of certain coöperative marketing associations. But any attempt completely to avoid this danger, such as the proposal of consumer coöperation that production should limit itself to the passive rôle of filling orders for the consumers' society, leads us into a danger no less real that enterprise will be stifled and technical progress slowed down if the producer is restricted in his opportunity of invention, discovery, and productive pioneering. Agricultural coöperation keeps the spur of competitive enterprise and stimulative salesmanship but also puts the

actual producer in a position of prompt and sensitive response to the reaction of the consumer public. Accepting the arbitrament of the competitive market and the challenge of other systems of economic organization, following other methods and appealing to other motives, the coöperative agriculturists insist that under many circumstances and for many of the total number of farmers the modifications of the older business forms which they are introducing contribute to the progressiveness, flexibility, and wholesomeness of our economic organization.

Although the danger of monopoly in any particular line of agricultural production is practically negligible in a country whose natural resources are so far from exhaustion as our own and in which any producer is able to alter his lines of production so freely, the coöperative movement sets up specific safeguards against even this slight danger. One of the fundamental requirements of the coöperative form of organization is that membership lists shall be freely open to all persons possessing a direct participating interest in the given activity which it is proposed to organize under the coöperative form. If this principle be strictly adhered to, the only danger of monopoly would be such as might be created by the industry as a whole through tariff enactments or restrictive internal legislation. Although coöperatives as well as others might participate in such movements, its sins could not be laid at the door of coöperative organization as such.

This being true, then coöperation of the producer pattern can well claim to benefit the consumer as well as the producer. Stated in terms of the distributive process, coöperative organization enters a world in which it finds certain profits accumulated (as it thinks, unduly) in the hands of processers and traders. These it distributes to its producing members, along with any further efficiency profits which it can secure by its improvement of business or technical methods. Such accessions to the grower's price have a stimulative effect on production, with a consequent lowering of the consumer's price. Actual experience demonstrates that this reaction of better net returns upon enlarged production often creates a danger of declining prices so great as to threaten to wreck the coöperative associations. Certainly it provides a powerful stimulus to the association to devise further economies of methods which will enable them to maintain the level of net returns to the grower. Such competition also spurs the private agency to outdo the coöperative in its efficiency in order to hold its business. Hence the argument that consumer as well as producer could expect to benefit from the establishing of a coöperative organization under sound business management capable of handling a significant fraction of each principal farm product, thus providing an alternative channel between producer and consumer, thereby at least establishing the

plane upon which competitive forces shall operate. The farmer's need of capital in his own business dictates that he go no farther afield than necessary in marketing or processing undertakings.<sup>16</sup>

Agricultural coöperation offers to the inherently decentralized industry of agriculture a workable and expansible scheme of organization designed to set up an agency for the progressive study and adjustment of the larger problems which are being forced upon this industry by the inescapable processes of our economic evolution. If, as Mill suggests, the goal which we are seeking is to raise the rank and file of our workers to a position where they are also, in the largest measure possible, owners of that share of the productive capital of society which is employed in their industry, we should look upon agricultural coöperation, conserving as it does (and in time extending) the present highly desirable combination between capitalist and labor rôle of the American farmer, as a movement to be carefully fostered and directed into channels of practical success as well as social helpfulness. Like other evolutionary processes its future course depends largely on the quality of its leadership. To analyze the issues intelligently and helpfully would be a service which the economist might well feel himself called upon to undertake.

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<sup>16</sup>In this connection it may be said that the peculiar character of agricultural coöperation as a small capitalist movement protects it against the very danger which is greatest in the case of coöperative organization in other departments of production, notably the proposals of labor copartnership, *i. e.*, the likelihood that the capital fund necessary for present efficiency and future progress may be gradually dissipated by a process of nibbling on the part of workers who are anxious to enjoy the full returns of prosperous periods without adequate provision for unprosperous years and the inevitable depreciation of the productive plant. The farmer has grown up in a hard school of self-denying business experience in which he has been forced to put current returns which came into his own hands back into the business even at the expense of a rather pinched consumptive standard. Therefore, as a matter of practical business success, the farmer is likely to be relatively a safe man to entrust with the administration of such capital funds except in so far as the claims of his own farm business may run counter to the remoter interests of the joint enterprise.